

TIFFANY RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

We have examined the consolidated balance sheet of Tiffany Resources Inc. as at July 31, 1985 and the consolidated statements of loss and deficit, changes in financial position and deferred exploration and development costs for the six months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

We have not been able to obtain sufficient information concerning amounts which may eventually be recovered from the oil and gas wells of the company. The oil and gas properties are recorded at cost. Generally accepted accounting principles require that they be valued at the lower of cost or net realizable value. Since we have not been able to obtain current estimates of the recoverable amounts, we are unable to determine whether adjustments to oil and gas costs might be necessary.

Auditors' Report

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TOPPING, EYTON and PARTNERS

CHARTERED ACCOUNTANTS

T. E. EYTON, F.C.A.
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AUDITORS' REPORT

To the Shareholders of
Tiffany Resources Inc.

We have examined the consolidated balance sheet of Tiffany Resources Inc. as at July 31, 1985 and the consolidated statements of loss and deficit, changes in financial position and deferred exploration and development costs for the six months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following paragraph.

We have not been able to obtain current information concerning amounts which may eventually be recovered from the oil and gas wells of the company. The oil and gas properties are recorded at cost. Generally accepted accounting principles require that they be valued at the lower of cost or net realizable value. Since we have not been able to obtain current estimates on the recoverable amounts, we are unable to determine whether adjustments to oil and gas costs might be necessary.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to obtain current estimates on the amounts recoverable from the oil and gas wells as described in the preceding paragraph, these consolidated financial statements present fairly the financial position of the company as at July 31, 1985 and the results of its operations and the changes in its financial position for the six months then ended in accordance with generally accepted accounting principles.

Topping, Eyton and Partners

Chartered Accountants

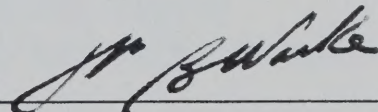
Vancouver, B. C.
September 20, 1985

TIFFANY RESOURCES INC.
CONSOLIDATED BALANCE SHEET
JULY 31, 1985

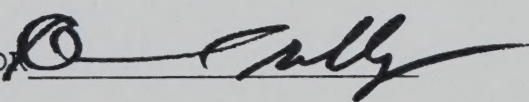
	1985	1984
ASSETS		
CURRENT		
Cash	\$ 657	\$ 7,632
Term deposits		141,166
Accounts receivable	4,801	13,526
Prepaid rent	1,670	1,800
Loan receivable		16,100
	<u>7,128</u>	<u>180,224</u>
OIL AND GAS INTERESTS (Note 2)	<u>280,804</u>	<u>265,053</u>
MINERAL INTERESTS (Note 3)	<u>3,001</u>	
DEFERRED EXPLORATION AND DEVELOPMENT COSTS (Statement 4)	<u>2,402</u>	
FIXED (Note 1)		
Furniture and fixtures	6,158	5,058
Less accumulated depreciation	2,979	1,308
	<u>3,179</u>	<u>3,750</u>
EQUIPMENT UNDER CAPITAL LEASE (Note 5)	<u>10,230</u>	
INCORPORATION COSTS	<u>1,436</u>	<u>1,436</u>
	<u><u>\$ 308,180</u></u>	<u><u>\$ 450,463</u></u>

APPROVED BY THE DIRECTORS:

DIRECTOR



DIRECTOR



(See accompanying notes)

TIFFANY RESOURCES INC.

CONSOLIDATED BALANCE SHEET

JULY 31, 1985

LIABILITIES

CURRENT

Accounts payable

\$ 42,592

\$ 53,970

Loans payable

2,300

Shareholder loan

8,205

Joint venture deposit (Note 7)

5,000

Obligation under capital lease

1,840

59,937

53,970

OBLIGATION UNDER CAPITAL LEASE (Note 6)

9,046

Less current portion

1,840

7,206

67,143

53,970

SHAREHOLDERS' EQUITY

Share capital (Note 4(b))

861,085

861,085

Deficit, per Statement 2

(620,048)

(464,592)

241,037

396,493

\$ 308,180

\$ 450,463

(See accompanying notes)

TIFFANY RESOURCES INC.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE SIX MONTHS ENDED JULY 31, 1985

	1985	1984
REVENUE		
Petroleum and natural gas	\$ 18,983	\$ 24,407
Interest income	660	2,281
	<u>19,643</u>	<u>26,688</u>
COSTS AND EXPENSES		
Advertising and promotion		1,143
Audit and legal	7,641	12,330
Administrative	15,000	22,000
Bank charges, interest and exchange	74	40
Consulting		7,080
Depletion		15,751
Depreciation	1,394	197
Petroleum and natural gas production taxes		2,613
Rent	9,000	12,606
Supplies and office	3,314	626
Telephone	3,839	5,738
Travel and parking		3,821
Stock exchange fees and transfer agent fees	942	6,133
Shareholders' publications		12,959
Wages	874	32,301
	<u>42,078</u>	<u>135,338</u>
WRITE-OFF OF ABANDONED MINERAL INTERESTS AND RELATED DEFERRED ADMINISTRATION AND DEFERRED EXPLORATION AND DEVELOPMENT COSTS		50,675
NET LOSS FOR PERIOD	22,435	159,325
DEFICIT, BEGINNING OF PERIOD	597,613	305,267
DEFICIT, END OF PERIOD	<u>\$ 620,048</u>	<u>\$ 464,592</u>
LOSS PER SHARE	<u>\$ 0.008</u>	<u>\$ 0.065</u>

(See accompanying notes)

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE SIX MONTHS ENDED JULY 31, 1985

1985	1984
Revenue	
Petroleum and natural gas	\$ 26,407
Interest income	2,751
	\$ 29,158
Costs and expenses	
Exploration and production	\$ 13,710
Administrative and general	13,000
Depreciation	40
Provision for doubtful accounts	13,751
Provision for deferred income taxes	197
Provision for deferred income taxes	2,413
Provision for deferred income taxes	13,606
Provision for deferred income taxes	87
Provision for deferred income taxes	2,710
Provision for deferred income taxes	2,851
Provision for deferred income taxes	6,111
Provision for deferred income taxes	13,000
Provision for deferred income taxes	32,201
	\$ 44,730
Income before income taxes	\$ 14,428
Income tax expense	108,287
Income after income taxes	\$ 122,859
Income tax expense	\$ 122,859
Income after income taxes	\$ 0.000

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TIFFANY RESOURCES INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE SIX MONTHS ENDED JULY 31, 1985

	1985	1984
SOURCES OF WORKING CAPITAL		
Lease obligation	\$ 7,206	
Proceeds from issue of shares		\$ 252,291
	<u>7,206</u>	<u>252,291</u>
USES OF WORKING CAPITAL		
Operations		
Net loss	22,435	159,325
Items not affecting working capital		
Depletion and depreciation	(1,394)	(15,948)
Properties and deferred costs written off		(50,675)
	<u>21,041</u>	<u>92,702</u>
Purchase of leased equipment	11,270	
Purchase of mineral claims	3,001	
Deferred exploration and development expenditures	500	2,180
	<u>35,812</u>	<u>94,882</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(28,606)	157,409
WORKING CAPITAL (DEFICIENCY), BEGINNING OF PERIOD	(24,203)	(31,155)
WORKING CAPITAL (DEFICIENCY), END OF PERIOD	<u>\$ (52,809)</u>	<u>\$ 126,254</u>
REPRESENTED BY		
Current assets	\$ 7,128	\$ 180,224
Current liabilities	59,937	53,970
	<u>\$ (52,809)</u>	<u>\$ 126,254</u>

(See accompanying notes)

TIFFANY RESOURCES INC.

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION
AND DEVELOPMENT COSTS

FOR THE SIX MONTHS ENDED JULY 31, 1985

	1985	1984
EXPENDITURES FOR THE PERIOD		
Engineering and consulting	\$ 500	\$ 2,180
DEFERRED EXPLORATION AND DEVELOPMENT COSTS, BEGINNING OF PERIOD	1,902	34,494
	2,402	36,674
WRITE-OFF OF DEFERRED EXPLORATION AND DEVELOPMENT COSTS RELATED TO ABANDONED MINERAL INTERESTS		36,674
DEFERRED EXPLORATION AND DEVELOPMENT COSTS, END OF PERIOD	\$ 2,402	NIL

(See accompanying notes)

TIFFANY RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned U.S. subsidiary companies, Tiffany American Energy Inc., an Arizona corporation and Tiffany Mining Corp. (U.S.A.), a Nevada corporation.

(b) Deferred costs

The company is in the exploration and development stage and has established a policy of deferring all exploration and development costs until such time as the projects are put into commercial production, sold or abandoned.

(c) Values

The amounts shown for oil and gas interests, mineral interests and deferred costs represent costs to date and do not necessarily reflect present or future value.

(d) Cost of maintaining oil and gas interests and mineral interests

The company does not accrue the estimated future costs of maintaining in good standing its oil and gas interests and mineral interests.

(e) Foreign exchange

Transactions recorded in U.S. dollars have been translated into Canadian dollars as follows:

Investment in oil and gas properties at historical rates.

Current assets and liabilities at the rate in effect at the balance sheet date.

Revenue and expenses at the rate in effect at the date of the transaction.

(f) Fixed assets and depreciation

Fixed assets are recorded at cost and the company provides for depreciation computed on the declining balance basis at the following annual rate:

Furniture and fixtures	20%
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TIFFANY RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

(g) Depletion

Depletion included in these financial statements has been calculated at rates based on the proportion of current production revenues to current and estimated future revenues from proven reserves as determined by independent petroleum geologists.

(h) Earnings per share

Earnings per share are calculated based on the weighted average number of shares outstanding during the period.

2. OIL AND GAS INTERESTS

	1985	1984
The company's Oklahoma oil and gas interests are summarized as follows:		
(a) A 6.25% working interest in 3 prospects called Parker #1, Barnes Prospect, Church #1, Mayne Prospect and Vail #1, Dead Indian Creek Prospect. To date, wells have been completed in all 3 prospects and are producing, with the company earning net working interests varying from 4.6875% to 4.8906%	\$ 187,065	\$ 187,065
(b) A 25.0% working interest netting the company 18.75% in a prospect called the Mitchell "A" #1 East Camp Creek Prospect. To date, one well has been completed and is producing	172,128	172,128
(c) A 1.5625% working interest giving the company a net revenue interest of 1.171875% before payout and 0.556638% after payout in a well called the Cat #2 located in Blaine County, Oklahoma	37,500	37,500
	396,693	396,693
Less depletion	115,889	131,640
	<u>\$ 280,804</u>	<u>\$ 265,053</u>

TIFFANY RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

3. MINERAL PROPERTIES AND INTERESTS

(a) At July 31, 1985 the company's mineral properties were:

	Acquisition costs
Reindeer Mining Division, Saskatchewan	
R103110 Claim	\$ 300
R103111 Claim	300
Nanaimo Mining Division, British Columbia	
Rea Group Claims	400
J.E. #1 Group Claims	
J.E. #3 Group Claims	
Mel 1-6 Claims	1
Cliff Claims	2,000
	<hr/>
	\$ 3,001
	<hr/>

(b) The ownership of all the above mineral claims is contingent upon the issue of the following shares subsequent to the proposed share consolidation by the company and to the approval by the Vancouver Stock Exchange of the purchase agreements.

- (i) R103110, R103111, Reindeer Mining Division
3,000 consolidated shares are to be issued for each claim upon acceptance of the agreement by the Vancouver Stock Exchange.
- (ii) Rea Group, J.E. #1 Group, J.E. #3 Group, Nanaimo Mining Division
50,000 consolidated shares upon acceptance of the option agreement by the Vancouver Stock Exchange and 50,000 consolidated shares upon completion of an exploration program recommended by the company.
- (iii) Mel Claims, Nanaimo Mining Division
30,000 consolidated shares upon acceptance of the agreement by the Vancouver Stock Exchange.

TIFFANY RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

(c) Royalty payments on Cliff Claims

Advance royalties are due as follows:

\$ 2,000	September 1, 1985
\$21,000	November 30, 1985
\$30,000	October 31, 1986
\$35,000	October 31, 1987
\$40,000	October 31, 1988
\$45,000	October 31, 1989

For each succeeding year, the optionee shall pay to the optionor the greater of (a) \$25,000 per year, or (b) in the event commercial production is achieved, production royalties equal to 4% of the net smelter returns until such time as the optionee has been paid the \$3,000,000 purchase price.

(d) The Lillooet mineral claims representing a value of \$14,001 were abandoned by the company during 1984.

4. SHARE CAPITAL

(a) Authorized capital

22,000,000 common voting shares without par value
3,000,000 Class B non-voting convertible shares without par value.

(b) Issued and fully paid

	<u>Number</u>	<u>Amount</u>
Common voting shares		
Balance, January 31, 1985	2,619,493	\$ 842,235
Class B shares converted	14,500	7,250
	<u>2,633,993</u>	<u>849,485</u>
Class B Non-voting shares		
Balance, January 31, 1985	18,850	18,850
Converted to Class A shares	7,250	7,250
	<u>11,600</u>	<u>11,600</u>
Total shares issued and outstanding	<u>2,645,593</u>	<u>\$ 861,085</u>

TIFFANY RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

- (c) During the year ended January 31, 1985 the company completed a rights offering (one right for each common share of the company held). The shareholders of record at February 23, 1984 were entitled to subscribe for one Class B share plus one Series A purchase warrant for every two rights held plus the price of \$1.00. 240,850 Class B shares and 240,850 Series A share purchase warrants were issued pursuant to the exercise of rights. Each Series A purchase warrant plus \$.70 entitled the holder to purchase one common share of the company. 229,250 Class B shares have been converted to 458,500 common shares (two common shares for every one Class B share converted).
- (d) Director stock options
- During 1984 stock options were granted to certain directors of the company. The options allow the directors the right to purchase 30,000 shares of the company at \$.75 per share on or before April 28, 1988. 7,500 shares were issued during the year ended January 31, 1985.
- During the year ended January 31, 1985, an additional stock option was granted to a director of the company. The option allows the director the right to purchase 100,000 shares of the company at \$.35 per share on or before May 4, 1989. A total of 4,000 of these options have been exercised.
- (e) Employee stock options
- During 1984 additional stock options were granted to certain employees of the company. The options allow the employees the right to purchase 30,000 shares of the company at \$.75 per share on or before April 28, 1988.
- During the year ended January 31, 1985, additional stock options were granted to certain employees of the company. The options allow the employees the right to purchase 100,000 shares of the company at \$.46 per share on or before March 29, 1989. A total of 9,600 of these options have been exercised.
- (f) Share consolidation
- On July 31, 1985 the shareholders approved a special resolution for the consolidation of the company's authorized and issued share capital on the basis of one share for every two shares authorized and outstanding. The resolution is subject to approval by the Vancouver Stock Exchange.

TIFFANY RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

5. EQUIPMENT UNDER CAPITAL LEASE

The following is an analysis of equipment under a capital lease:

Equipment (cost)	\$ 11,270
Less accumulated amortization	1,040
	<u>\$ 10,230</u>

The equipment under the capital lease is amortized on a straight-line basis over the term of the lease of 5 1/2 years.

The amount of amortization charged to expense for the six months ended July 31, 1985 is \$1,040.

6. LEASE OBLIGATION

The following is a schedule of future lease payments under the capital lease expiring May 31, 1990.

Year ending July 31	
1986	\$ 1,840
1987	1,840
1988	1,840
1989	1,840
1990	1,686
Total lease payments	<u>\$ 9,046</u>

7. JOINT VENTURE DEPOSIT

By an agreement dated March 20, 1985, the company agreed to sell a fifty-percent interest in certain mineral claims to Rampart Resources Limited for consideration of \$5,000 and for the cost of obtaining a qualified engineering report on the claims not to exceed \$1,500.

Because the mineral property agreements are subject to the issue of consolidated shares and approval by the Vancouver Stock Exchange, the \$5,000 has been recorded as a deposit.

The joint venture agreement concerns the following mineral claims:

Nanaimo Mining Division
 J.E. #1 Group Claims
 J.E. #3 Group Claims
 Mel 1-6 Claims

TIFFANY RESOURCES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1985

8. RELATED PARTY TRANSACTIONS

During the period, a company controlled by a director of the company received \$9,000 for rent. In addition, \$15,000 (1984 - \$20,000) was paid to two directors for services rendered to the company. During the period, a director and a company controlled by him lent the company \$6,367 and \$300 respectively to pay certain operating expenses.

9. NAME CHANGE

On July 31, 1985 the shareholders approved a special resolution to change the company's name from Tiffany Resources Inc. to Tiffany Resources (1985) Inc. The resolution is subject to approval by the Vancouver Stock Exchange.

10. COMPARATIVE FIGURES

Prior year's figures (1984) were reported on by auditors other than Topping, Eyton and Partners.

